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Memorandum for:

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This outlook is in response to your request for unclassified information for the Canada-US Interparliamentary Group Meeting. If you have any questions, feel free to call me at

25X1

Sincerely,

19 April 1985

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EURA

Office of European Analysis

EURM 85-10076

[redacted] 25X1

Canadian Economic Outlook

Canadian GNP growth is likely to be slightly below 3 percent in 1985, down from the 4.7 percent achieved last year. Most of the slowdown in growth will occur because of an expected deterioration in trade performance -- last year expanding exports, particularly to the United States, provided the major impetus to overall economic growth. In 1985, however, export growth should moderate because the US economic boom is expected to taper off. With three-fourths of Canadian exports going to the United States, the trade balance clearly will suffer -- last year Canada ran a $15.3 billion merchandise trade surplus with the US alone. Moreover, we expect a slight deterioration in the Canada's terms of trade, which will futher worsen the trade figures. As a result the trade surplus in 1985 probably will slip to $15.5 billion, down from $16.4 billion last year. Because Canada will continue to run a large deficit in services, the current account probably will be near balance this year. [redacted] 25X1

Prime Minister Mulroney has said that deficit reduction will be one of his government's economic priorities; any significant action to lower the budget imbalance, however, is unlikely. Although the Canadian deficit for fiscal year 1984-85 -- roughly $27 billion -- is larger as a percent of GNP than the US deficit, leading Tories recognize that political realities will make it difficult for the government to take major deficit cutting measures in the budget that will be announced in late May. [redacted] 25X1

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*All dollar figures are in US dollars.

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Another of Mulroney's priorities is attracting foreign investment which he believes is necessary if the Canadian recovery is to be sustained. Partly as a result of his actions, business investment, which was sluggish last year, should pick up somewhat in 1985 but will continue to remain well below its pre-recession peak. Ottawa has introduced legislation to abolish the Foreign Investment Review Agency (FIRA) and replace it with an agency called Investment Canada. The new agency is designed to promote new investment and will be less rigorous than the FIRA was in screening proposals. Since the Tories took power last September, for example, Ottawa has approved all foreign investment applications submitted to it. Moreover, a recent change to the National Energy Program is designed to encourage energy investment in Canada and removes the discriminatory measures that were invoked against foreign firms by the previous Liberal government. [redacted] 25X1

Inflation in Canada continues to remain under control. The consumer price index increased by only 4.4 percent in 1984, a 13-year low, and inflation is expected to moderate even further in 1985 to about 3.7 percent. The only threat of a new surge of inflation lies in the increasingly unlikely possibility of a significant decline in the value of the Canadian dollar -- a decline would push up import prices and rekindle domestic inflation. [redacted] 25X1

Although the Canadian economy will continue to grow in 1985, the growth will not be sufficient to lower the unemployment rate significantly.

[redacted] 25X1

[redacted] 25X1

Unemployment -- presently at 11.2 percent -- almost certainly will remain slightly in excess of 11 percent for the reminder of this year. [redacted] 25X1

Selected Economic Statistics

	1984	1985(Forecast)
GNP Growth	4.7%	2.9%
Consumer Price Index	4.4%	3.7%
Unemployment (End of Year)	10.8%	11.3%
Current Account	$1.5b	$0.4b
Budget Deficit	$27 b	$23 b
(as a percent of GNP)	8.3%	7.9%

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